

Message Text

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ACTION EUR-12

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FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 5227

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

CINCLANT

COMICEDEFOR

USMISSION NATO

UNCLAS REYKJAVIK 0311

PARIS FOR RFC

COPENHAGEN FOR FISHERIES ATTACHE

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TAGS: EFIN, ELAB, ETRD, GATT, EAIR, IC

SUBJECT: GOVERNMENT PROPOSES TAX CUTS AND OTHER ECONOMIC
MEASURES

REF: REYKJAVIK 0306

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1. SUMMARY. GOI PROPOSED MAJOR ECONOMIC MEASURES TO PARLIAMENT MARCH 20 TO REDUCE GOVERNMENT SPENDING, AND TO ASSIST LOW-INCOME WORKERS THROUGH CUTS IN TAXES AND IMPORT DUTIES. MEASURES INCLUDE TAX REDUCTIONS, POSSIBLE TARIFF REDUCTIONS ON SOME FOODSTUFFS, SOME INCOME INCREASES, COMPULSORY SAVINGS, AND A DEPARTURE TAX. DETAILS, OTHER THAN THE FOLLOWING WILL BE PROVIDED IN SEPARATE MESSAGES. END SUMMARY.

2. TAX MEASURES. THE GOVERNMENT PROPOSED A VARIETY OF COMPLEX PROPOSALS ON TAXES, SOME IN THE FORM OF REDUCTIONS AND SOME INCREASES. INCOME TAX LAWS ARE BEING AMENDED TO PROVIDE GREATER BENEFITS THROUGH EXEMPTIONS AND DEFINITIONS OF GROSS EARNINGS FOR LOW-INCOME WORKERS. THESE APPLY TO NATIONAL AND MUNICIPAL TAXES. SALES TAX CUTS ON CERTAIN FOODSTUFFS ARE TO BE LEFT IN THE HANDS OF THE FINANCE MINISTER.

3. IMPORT DUTIES. PROPOSALS WOULD INCLUDE REDUCTION OR ELIMINATION OF DUTIES ON FATS AND OIL, AND CERTAIN FRUITS. DETAILS OF THESE WILL BE PROVIDED IN SEPTEL INCLUDING BRUSSELS TARIFF NUMBERS.

4. FORCED SAVINGS. THE GOVERNMENT IS AUTHORIZED TO SELL BONDS IN A FIXED AMOUNT WHICH MUST BE PURCHASED BY THOSE WITH HIGHER INCOMES. A SPECIFIC FORMULA IS INCLUDED IN THE BILL. ONE ESTIMATE IS THAT THE MEASURE MIGHT AFFECT ABOUT 25 PER CENT OF ALL INCOME EARNERS.

5. DEPARTURE TAX. FROM APRIL 1 UNTIL END OF YEAR, LEVY ON ALL PERSONS OVER TWO YEARS OLD WILL BE COLLECTED BY AIRLINES AND SHIPPING LINES ON DEPARTURES FROM ICELAND. EXCEPTIONS ARE THOSE ON US MILITARY-OPERATED FLIGHTS, CREWS, AND THOSE IN ICELAND LESS THAN 72-HOURS. THE CHARGE IS 2500 KRONUR (ABOUT US\$17) FOR ADULTS, 1250 KRONUR FOR CHILDREN FROM 2 TO 12 YEARS. LANDING CHARGES AT KEFLAVIK ARE ALSO BEING RAISED.

6. SOME EFFECTS OF MEASURES. THE PRIME MINISTER SAID THAT TAX REDUCTIONS REPRESENT A 6 TO 7 PERCENT INCREASE

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IN WAGES AND ADDED THAT THE SEPTEMBER WAGE RAISE OF 9 PER CENT AND THE DECEMBER RAISE OF 3 PERCENT SHOULD ALSO BE KEPT IN D. HE HOPEB THAT AN ADDITIONAL INCREASE COULD BE AGREED UPON IN CONNECTION WITH CURRENT WAGE NEGOTIATIONS AND NOTED THAT THE GOVT HAD PREPARED SUGGESTIONS ON WAGE INCREASES AS OF MARCH 1 IN ACCORDANCE WITH PREVIOUS ANNOUNCEMENTS SHOULD THE COST OF LIVING INDEX EXCEED 358 POINTS. HE SAID THE GOVT HAS NOT

PRESENTED THESE SUGGESTIONS AT THE REQUEST OF EMPLOYERS AND UNIONS WHO ARE STILL NEGOTIATING. ACCORDING TO THE TAX BILL, BENEFITS WILL COST THE GOVERNMENT UPWARD OF 2 BILLION KRONUR IN REVENUES. AN ASSIGNMENT OF THE 3.5 BILLION BUDGET CUT HAS NOT YET BEEN MADE.

7. COMMENT. COMMENT ON THE MEASURES HAVE BEEN LIMITED. UNIONS ARE CONTINUING WITH STRIKE PLANS (NOTICE MUST BE GIVEN BY MARCH 26 IF STRIKE IS TO TAKE PLACE APRIL 7 - SEE REFTEL). THE HEAD OF THE ICELAND FEDERATION OF LABOR (IFL) SAID THE BILL DID NOT SEEM TO CONTAINS MUCH, BUT THAT HIS STAFF WAS EXAMINING THE PROVISIONS AND THE EXAMINATION SHOULD BE COMPLETED TODAY, WHEREUPON THE IFL WOULD INFORM THE GOVERNMENT OF ITS REACTION. PEOPLE'S ALLIANCE AND SDP SNIPED AT THE BILL, BUT POLITICAL COMMENT HAS BEEN GENERAL AND RELATED TO PAST EVENTS, RATHER THAN TO WHAT EFFECT THE LEGISLATION MIGHT HAVE.
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